

GRAYSON COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Grayson County School District
Leitchfield, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Grayson County School District** as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Grayson County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Grayson County School District as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and *OMB Circular A-133*, we have also issued our reports dated November 1, 2007 on our consideration of the Grayson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and *OMB Circular A-133* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 33 through 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Grayson County School District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Grayson County School District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,

Watkins, Buckles, Travis & Sloan
Certified Public Accountants
November 1, 2007

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

As management of the Grayson County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$6,269,408.
- The board initiated no new major construction projects in fiscal year 2007.
- The general fund had \$25,932,493 in revenue, which primarily consisted of the state program (SEEK), property, local, utilities, and motor vehicle taxes. Excluding fund transfers, there were \$25,434,729 in general fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

District-wide financial statements

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 6 and 7 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations and daycare. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 8 through 15 of this report.

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007**

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 30 of this report.

DISTRICT-WIDE FINANCIAL STATEMENTS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$15,381,005 as of June 30, 2007.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net assets for the periods ending June 30, 2006 and 2007

	06/30/06	06/30/07
Current assets	\$7,014,520	\$8,021,187
Non-current assets	25,633,492	25,090,095
Total assets	<u>32,648,012</u>	<u>33,111,282</u>
Current liabilities	3,425,989	3,450,277
Non-current liabilities	15,290,000	14,280,000
Total liabilities	<u>18,715,989</u>	<u>17,730,277</u>
Net assets		
Invested in capital assets (net of debt)	9,231,287	9,800,095
Restricted	3,180,750	3,220,668
Unrestricted fund balance	1,519,986	2,360,242
Total net assets	<u>\$13,932,023</u>	<u>\$15,381,005</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2007, net of interfund transfers, were \$25,932,493.
- General Fund revenue accounted for 76% of all governmental revenues. Program specific revenues, primarily in the form of grants, accounted for 24% of total revenues.
- The School District had expenditures of \$30,597,962 related to General Fund and Special Revenue Fund activities. Instruction comprises 65% of these expenses. Support service expenses make up 34% of these expenditures, and the expenses for facility acquisition, construction, and improvement and debt service total the remaining 1%.

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2007**

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2006 and 2007:

Revenues	06/30/06	06/30/07
Charges for services	\$ 767,113	\$ 909,072
Operating grants and contributions	5,937,701	6,681,290
Capital grants and contributions	979,434	1,068,421
General revenues	27,768,398	27,972,634
Special items	10,905	10,943
	<u>35,463,551</u>	<u>36,642,360</u>
Expenses		
Instructional	19,690,204	20,157,235
Student support services	1,268,202	1,384,385
Staff support services	1,407,292	1,654,929
District administration	846,577	678,179
School administration	1,876,358	1,686,438
Business support services	309,038	267,781
Plant operation and maintenance	2,558,411	2,817,337
Student transportation	1,942,426	1,910,042
Central office	0	0
Community service operations	332,295	350,061
Facility acquisition and construction	49,001	165,935
Other	0	0
Debt service	1,921,111	1,787,677
Food service	2,049,736	2,189,860
Daycare	153,626	143,519
Total expenses	<u>34,404,277</u>	<u>35,193,378</u>
Revenues in excess of expenses	<u>\$1,059,274</u>	<u>\$1,448,982</u>

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The beginning cash balance for beginning the fiscal year is \$6,269,408. Significant Board action that impacts the finances include a minimum 5% pay raise for all classified employees, a \$3,000 pay raise for all certified employees and an additional option of a 1% raise using Kentucky Deferred Compensation.

Questions regarding this report should be directed to Barry Anderson, Superintendent or to Kerry White, Finance Officer at (270)259-4011 or by mail at P.O. Box 4009, Leitchfield, KY 42755.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 4,626,205	\$ 138,560	\$ 4,764,765
Investments	2,252,910	0	2,252,910
Accounts receivable:			
Taxes	47,096	0	47,096
Accounts	945,118	5,971	951,089
Inventories for consumption	0	5,327	5,327
TOTAL CURRENT ASSETS	7,871,329	149,858	8,021,187
NON-CURRENT ASSETS			
Bond discounts and issue costs, net of accumulated amortization of \$86,350	175,579	0	175,579
Non-depreciated capital assets	1,377,839	0	1,377,839
Depreciated capital assets	39,543,459	1,003,586	40,547,045
Less: Accumulated depreciation	(16,131,282)	(879,086)	(17,010,368)
TOTAL NON-CURRENT ASSETS	24,965,595	124,500	25,090,095
TOTAL ASSETS	32,836,924	274,358	33,111,282
LIABILITIES			
CURRENT LIABILITIES			
Cash overdraft	512,329	0	512,329
Accounts payable	129,603	2,096	131,699
Accrued payroll and related expenses	71,095	0	71,095
Deferred revenues	242,381	0	242,381
Interest payable	630,950	0	630,950
Current portion of bond obligations	1,010,000	0	1,010,000
Current portion of accrued sick leave	801,676	50,147	851,823
TOTAL CURRENT LIABILITIES	3,398,034	52,243	3,450,277
NON-CURRENT LIABILITIES			
Bond obligations	15,290,000	0	15,290,000
Less: Current portion of bond obligations	(1,010,000)	0	(1,010,000)
TOTAL NON-CURRENT LIABILITIES	14,280,000	0	14,280,000
TOTAL LIABILITIES	17,678,034	52,243	17,730,277
NET ASSETS			
Invested in capital assets, net of related debt	9,675,595	124,500	9,800,095
Restricted for:			
Capital projects	488,632	0	488,632
Accrued sick leave	200,000	0	200,000
KSFCC escrow	2,038,416	0	2,038,416
Other purposes	396,005	97,615	493,620
Unrestricted	2,360,242	0	2,360,242
TOTAL NET ASSETS	\$ 15,158,890	\$ 222,115	\$ 15,381,005

See accompanying auditors' report and accompanying notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	PROGRAM REVENUES			GENERAL AND SPECIAL REVENUES		NET (EXPENSE) REVENUE CHANGES			
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental	Business-Type	Governmental Activities	Business-Type Activities	Total
Governmental activities:									
Instructional	\$ 20,157,235	\$ 40,070	\$ 3,655,898	\$ 0			\$ (16,461,267)		\$(16,461,267)
Student support services	1,384,385	158,395	188,686	0			(1,037,304)		(1,037,304)
Staff support services	1,654,929	0	740,837	0			(914,092)		(914,092)
District administration	678,179	0	1,344	0			(676,835)		(676,835)
School administration	1,686,438	0	134,845	0			(1,551,593)		(1,551,593)
Business support services	267,781	0	0	0			(267,781)		(267,781)
Plant operation and maintenance	2,817,337	3,456	79,140	0			(2,734,741)		(2,734,741)
Student transportation	1,910,042	0	45,677	0			(1,864,365)		(1,864,365)
Central office	0	0	0	0			0		0
Community service operations	350,061	611	316,732	0			(32,718)		(32,718)
Facility acquisition and construction	165,935	0	0	1,068,421			902,486		902,486
Other	0	0	0	0			0		0
Debt service	1,787,677	0	0	0			(1,787,677)		(1,787,677)
Total governmental activities	32,859,999	202,532	5,163,159	1,068,421			(26,425,887)		(26,425,887)
Business-type activities:									
Food service	2,189,860	588,271	1,472,806	0				\$(128,783)	(128,783)
Daycare	143,519	118,269	45,325	0				20,075	20,075
Total business-type activities	2,333,379	706,540	1,518,131	0				(108,708)	(108,708)
Total school district	\$ 35,193,378	\$ 909,072	\$ 6,681,290	\$ 1,068,421			(26,425,887)	(108,708)	(26,534,595)
General revenues:									
Taxes					\$ 5,673,709	\$ 0	5,673,709	0	5,673,709
State aid-formula grants					20,178,672	0	20,178,672	0	20,178,672
Investment earnings					445,610	6,464	445,610	6,464	452,074
Proceeds from bonds					0	0	0	0	0
Miscellaneous					1,674,802	4,479	1,674,802	4,479	1,679,281
Special items:									
Gain (loss) on sale of assets					(7,232)	0	(7,232)	0	(7,232)
Loss compensation					7,073	0	7,073	0	7,073
Transfers					0	0	0	0	0
Total general and special					\$ 27,972,634	\$ 10,943	27,972,634	10,943	27,983,577
Change in net assets							1,546,747	(97,765)	1,448,982
Net assets – Beginning							13,612,143	319,880	13,932,023
Net assets – Ending							\$ 15,158,890	\$ 222,115	\$ 15,381,005

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2007

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$1,890,523	\$ 0	\$ 2,169,897	\$ 565,785	\$ 4,626,205
Investments	1,226,455	0	1,026,455	0	2,252,910
Accounts receivable:					
Accounts	186,385	758,733	0	0	945,118
TOTAL ASSETS	<u>\$3,303,363</u>	<u>\$ 758,733</u>	<u>\$ 3,196,352</u>	<u>\$ 565,785</u>	<u>\$ 7,824,233</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Cash overdraft	\$ 0	\$ 512,329	\$ 0	\$ 0	\$ 512,329
Accounts payable	125,580	4,023	0	0	129,603
Accrued payroll and related expenses	71,095	0	0	0	71,095
Deferred revenues	0	242,381	0	0	242,381
TOTAL LIABILITIES	<u>196,675</u>	<u>758,733</u>	<u>0</u>	<u>0</u>	<u>955,408</u>
FUND BALANCE					
Reserved for encumbrances	157,225	162,370	0	0	319,595
Accrued sick leave	200,000	0	0	0	200,000
Restricted for KSFCC escrow	0	0	2,038,416	0	2,038,416
Unreserved	2,749,463	(162,370)	1,157,936	743	3,745,772
Restricted for future construction	0	0	0	488,632	488,632
Debt service fund	0	0	0	76,410	76,410
TOTAL FUND BALANCE	<u>3,106,688</u>	<u>0</u>	<u>3,196,352</u>	<u>565,785</u>	<u>6,868,825</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$3,303,363</u>	<u>\$ 758,733</u>	<u>\$ 3,196,352</u>	<u>\$ 565,785</u>	<u>\$ 7,824,233</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balance		\$ 6,868,825
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets:		
Non-depreciated capital assets	\$ 1,377,839	
Depreciated capital assets	39,543,459	
Accumulated depreciation	<u>(16,131,282)</u>	24,790,016
Certain assets are not reported in the fund financial statements because they are not current financial resources, but they are reported in the statement of net assets.		
Taxes receivable		47,096
Bond discounts and issue costs are financial uses and are reported as expenditures in governmental funds. This amount should be capitalized in the district-wide financial statements and expensed over the life of the bond.		
Bond discounts and issue costs	\$ 261,929	
Accumulated amortization	<u>(86,350)</u>	175,579
Certain liabilities (such as bonds payable, accrued interest, and other notes payable) are not reported in the fund financial statements because they are not due and payable, however, they are presented in the statement of net assets.		
Interest payable	\$ (630,950)	
Sick leave payable	(801,676)	
Bond obligations	<u>(15,290,000)</u>	<u>(16,722,626)</u>
TOTAL NET ASSETS - GOVERNMENTAL		<u><u>\$ 15,158,890</u></u>

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$ 5,135,341	\$ 0	\$ 538,368	\$ 0	\$ 5,673,709
Earnings on investments	386,630	4,646	26,455	27,879	445,610
Other local revenues	208,455	25,183	0	0	233,638
State sources	20,088,904	2,201,941	684,481	383,940	23,359,266
Federal sources	89,768	2,873,892	0	0	2,963,660
Other sources	0	0	0	1,714,699	1,714,699
TOTAL REVENUES	25,909,098	5,105,662	1,249,304	2,126,518	34,390,582
EXPENDITURES					
Instructional	16,340,169	3,655,921	0	0	19,996,090
Student support services	1,195,008	188,686	0	0	1,383,694
Staff support services	898,256	740,876	0	0	1,639,132
District administration	668,713	1,344	0	0	670,057
School administration	1,129,735	134,845	0	0	1,264,580
Business support services	266,187	0	0	0	266,187
Plant operation and maintenance	2,496,698	79,140	0	0	2,575,838
Student transportation	2,273,334	45,677	0	0	2,319,011
Central office	0	0	0	0	0
Community service operations	32,949	316,744	0	0	349,693
Facility acquisition, construction and improvement	133,680	0	0	32,255	165,935
Other	0	0	0	0	0
Debt service	0	0	848,988	2,099,007	2,947,995
TOTAL EXPENDITURES	25,434,729	5,163,233	848,988	2,131,262	33,578,212
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	474,369	(57,571)	400,316	(4,744)	812,370
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	0	0	0	0	0
Proceeds from sale of assets	23,395	0	0	0	23,395
Bond issue costs	0	0	0	0	0
Bond discount	0	0	0	0	0
Operating transfers in	0	57,571	0	0	57,571
Operating transfers out	(57,571)	0	0	0	(57,571)
TOTAL OTHER FINANCING SOURCES (USES)	(34,176)	57,571	0	0	23,395
NET CHANGE IN FUND BALANCES	440,193	0	400,316	(4,744)	835,765
FUND BALANCES – BEGINNING	2,666,495	0	2,796,036	570,529	6,033,060
FUND BALANCES – ENDING	\$ 3,106,688	\$ 0	\$ 3,196,352	\$ 565,785	\$ 6,868,825

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Amounts reported for governmental activities in the statement of net assets are different because:

Net changes - governmental funds	\$ 835,765
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Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.

Depreciation expense	\$ (1,223,048)	
Loss on disposal of assets	(7,232)	
Capital outlays	781,261	(449,019)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, issuing debt increases the long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal paid	1,112,205
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Bond discounts and issue costs are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of activities, these costs are capitalized and amortized over the life of the respective bond.

Amortization expense	(16,485)
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In the statement of activities the change in accumulated sick leave payable and interest payable is reported. Whereas, in the governmental funds this change in liability is not reported. Thus the change in net assets differs from the change in fund balances by the amount of increase or decrease in this account.

Decrease in accumulated sick leave payable	16,167	
Decrease in interest payable	48,114	64,281

CHANGES – NET ASSETS – GOVERNMENTAL FUNDS	\$ 1,546,747
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See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2007

	FOOD SERVICE	OTHER ENTERPRISE FUNDS (Daycare)	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 117,371	\$ 21,189	\$ 138,560
Accounts receivable:			
Accounts	0	5,971	5,971
Inventories for consumption	5,327	0	5,327
TOTAL CURRENT ASSETS	<u>122,698</u>	<u>27,160</u>	<u>149,858</u>
NON-CURRENT ASSETS			
Depreciated capital assets	1,003,586	0	1,003,586
Less: Accumulated depreciation	(879,086)	0	(879,086)
TOTAL NON-CURRENT ASSETS	<u>124,500</u>	<u>0</u>	<u>124,500</u>
TOTAL ASSETS	247,198	27,160	274,358
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1,997	99	2,096
Current portion of accrued sick leave	50,147	0	50,147
TOTAL CURRENT LIABILITIES	<u>52,144</u>	<u>99</u>	<u>52,243</u>
NET ASSETS			
Invested in capital assets, net of related debt	124,500	0	124,500
Reserved for inventory	5,327	0	5,327
Restricted	65,227	27,061	92,288
TOTAL NET ASSETS	<u>\$ 195,054</u>	<u>\$ 27,061</u>	<u>\$ 222,115</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	FOOD SERVICE	OTHER ENTERPRISE FUNDS (Daycare)	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 588,271	\$ 0	\$ 588,271
Tuition	0	118,269	118,269
TOTAL OPERATING REVENUES	<u>588,271</u>	<u>118,269</u>	<u>706,540</u>
OPERATING EXPENSES			
Salaries and benefits	1,225,717	131,002	1,356,719
Contract services	17,078	479	17,557
Materials and supplies	958,201	7,517	965,718
Depreciation	42,797	0	42,797
Other operating expenses	44,582	4,521	49,103
TOTAL OPERATING EXPENSES	<u>2,288,375</u>	<u>143,519</u>	<u>2,431,894</u>
OPERATING INCOME (LOSS)	(1,700,104)	(25,250)	(1,725,354)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	1,145,717	0	1,145,717
State grants	26,808	0	26,808
Donated commodities	98,515	0	98,515
On-behalf payments	300,281	45,325	345,606
Interest income	6,464	0	6,464
Miscellaneous revenue	4,479	0	4,479
Operating transfers in	0	0	0
Operating transfers out	0	0	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,582,264</u>	<u>45,325</u>	<u>1,627,589</u>
CHANGE IN NET ASSETS	(117,840)	20,075	(97,765)
NET ASSETS – BEGINNING	312,894	6,986	319,880
NET ASSETS – ENDING	<u>\$ 195,054</u>	<u>\$ 27,061</u>	<u>\$ 222,115</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:	
Lunchroom sales	\$ 588,271
Tuition	112,298
Governmental grants	1,172,525
Operating transfers in	0
Cash paid to/for:	
Salaries and benefits	(1,017,092)
Materials and supplies	(870,821)
Contract services	(17,557)
Operating transfers out	0
Other activities	(27,239)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(59,615)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Disposed assets	42,481
Purchase of capital assets	(7,385)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>35,096</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest income	6,464
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>6,464</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,055)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	156,615
CASH AND CASH EQUIVALENTS – END OF YEAR	<u><u>\$ 138,560</u></u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Income (loss)	\$ (104,229)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	42,797
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(5,971)
Increase (decrease) in accounts payable	1,809
Increase (decrease) in accrued sick leave payable	5,979
Increase (decrease) in deferred revenue	0
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (59,615)</u></u>

SCHEDULE OF NON-CASH TRANSACTIONS

Donated commodities received from federal government	\$ 98,515
On-behalf payments	<u><u>\$ 345,606</u></u>

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
JUNE 30, 2007

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUND
ASSETS		
Cash and cash equivalents	\$ 0	\$ 297,793
Accounts receivable	0	1,492
Investments	4,991,255	0
TOTAL ASSETS	<u>4,991,255</u>	<u>299,285</u>
LIABILITIES		
Accounts payable	0	24,423
Due to student groups	0	274,862
TOTAL LIABILITIES	<u>0</u>	<u>299,285</u>
NET ASSETS HELD IN TRUST	<u>\$ 4,991,255</u>	<u>\$ 0</u>

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE A - REPORTING ENTITY

The Grayson County Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Grayson County School District (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Grayson County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

On June 30, 1991, the Grayson County Board of Education authorized and directed that a corporation be organized and formed pursuant to the provisions of Sections 273.161 through 273.390 of the Kentucky Revised Statutes. The purposes of the corporation are to act as an agency of the Board of Education in the acquisition and financing of any public school project which may be undertaken by the Board, to acquire real estate or any interest therein, and to issue bonds, notes, or other obligations on behalf of the Board for the acquisition and financing of one or more public school projects.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) (when applicable) that do not conflict with or contradict GASB pronouncements.

In June 1999, GASB unanimously approved *Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

The District adopted GASB Statement No. 34 in the fiscal year ended June 30, 2003.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation

District-wide financial statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered to be business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which fund financial statements are prepared. Fund financial statements therefore include reconciliation with brief explanation to better identify the relationship between the district-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

In the district-wide Statement of Net Assets and Statement of Activities both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund financial statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The District has the following funds:

1. Governmental Fund Types

- a. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- b. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 36 through 37. This is a major fund of the District.
- c. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - i. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. The SEEK Fund is not a major fund.
 - ii. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
 - iii. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is not a major fund.
- d. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. The Debt Service Fund is not a major fund.

2. Proprietary Fund Types (Enterprise Fund)

- a. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- b. The Family Resource Center Fund is used to account for daycare activities. The Family Resource Center Fund is not a major fund.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District defines operating revenues as revenues derived from proprietary fund operations. All other revenues are considered non-operating.

3. Fiduciary Fund Type (Agency Funds)

- a. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource is required to be used or for the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. A discount is offered through November 30 and a penalty is assessed after December 31. Property taxes collected are recorded as revenues in the fiscal year for which they are levied. Property taxes collected are recorded as revenues in the Fund for which they were levied.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities
	Estimated Lives
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	10 years

Inter-fund Balances

On the fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as "inter-fund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements these amounts are recorded in the account "accumulated sick leave payable" in the general fund.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Such amendments are not made after fiscal year-end as dictated by law.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On district-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2007 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments

The private purpose trust funds record investments at their quoted market prices.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of the fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling of legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues and expenses are those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals or daycare services provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED

Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flow of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE C – ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D - CASH AND INVESTMENTS

At year end, the carrying amount of the District's cash and investments was \$6,803,139. Of the total institutional balance of \$8,116,204, \$238,845 was covered by Federal depository insurance. The remaining balance of \$7,877,359 would require collateralization. As of June 30, 2007, \$8,180,012 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statutes provide for investment of governmental funds into certain investment types including obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. All balances held are considered acceptable and compliant per Kentucky Revised Statutes, however, to be considered fully collateralized by Governmental Accounting Standards, any securities held in a pledging financial institution must be held in the District's name.

Any certificates of deposit or other fixed term investments are purchased in the name of the District. Therefore, these purchases are federally insured up to \$100,000 and/or collateralized with U.S. Government Securities at 110% market value or 100% collateralized (principal and interest) by irrevocable letters of credit issued by the Federal Home Loan Bank of San Francisco.

Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and federal financial assistance programs, each bank account or fund balance, as applicable, within the following funds is considered to be restricted:

SEEK Capital Outlay Fund
Facility Support Program (FSPK)
Debt Service Fund
Daycare Fund

School Construction Fund
Grant Fund
School Lunchroom Fund
Activity Fund

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE E - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

Governmental Activities	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Land	\$ 1,377,839	\$ 0	\$ 0	\$ 1,377,839
Buildings and improvements	30,905,638	0	608,928	30,296,710
Technology equipment	2,630,343	907,801	703,682	2,834,462
Vehicles	3,466,425	654,632	480,272	3,640,785
General equipment	2,467,414	367,396	63,308	2,771,502
Construction in progress	0	0	0	0
Totals at historical cost	40,847,659	1,929,829	1,856,190	40,921,298
Less: Accumulated depreciation				
Buildings and improvements	9,398,709	608,928	(7,000)	10,014,637
Technology equipment	1,927,549	257,367	350,646	1,834,270
Vehicles	2,382,998	252,072	359,526	2,275,544
General equipment	1,899,368	104,681	(2,783)	2,006,832
Total accumulated depreciation	15,608,624	1,223,048	700,389	16,131,283
Governmental Activities Capital Assets - Net	<u>\$25,239,035</u>	<u>\$ 706,781</u>	<u>\$ 1,155,801</u>	<u>\$ 24,790,015</u>
 Business-Type Activities				
Food service and equipment	\$ 1,006,200	\$ 0	\$ 42,481	\$ 963,719
Technology equipment	32,482	7,385	0	39,867
Construction in progress	0	0	0	0
Totals at historical cost	1,038,682	7,385	42,481	1,003,586
Less: Accumulated depreciation				
Food service equipment	804,757	42,322	0	847,079
Technology equipment	31,532	475	0	32,007
Total accumulated depreciation	836,289	42,797	0	879,086
Business-Type Activities Capital Assets - Net	<u>\$ 202,393</u>	<u>\$ (35,412)</u>	<u>\$ 42,481</u>	<u>\$ 124,500</u>

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Grayson County and the City of Leitchfield, Kentucky.

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 735,000	3.50% - 5.375%
1995	8,360,000	6.12%
1998A	2,380,000	4.25% - 4.375%
1998B	1,570,000	4.15% - 4.300%
1998C	1,030,000	4.10%
2001	8,110,000	3.80% - 4.900%
2002A	5,190,000	1.25% - 3.75%
2002B	370,000	1.60% - 3.55%

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Grayson County Fiscal Court and the City of Leitchfield to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

On February 1, 1998, the Grayson County School District issued \$2,380,000 Series A and \$1,570,000 Series B School Building Revenue Bonds and Refunding Bonds with interest rates ranging from 4.15% to 4.375% to advance refund outstanding revenue bonds issued in 1987, January of 1990, December of 1990, 1991, and 1992. Rates of interest on the refunded bonds range from 6.00% to 7.60%. The net proceeds of \$3,842,202 (after payment of \$49,047 in issuance costs plus \$12,155 in accrued interest) were deposited in the 1998A and 1998B Escrow Fund accounts with PNC Bank to provide for the appropriate future debt service payments on the aforementioned issues. Such proceeds are invested in U.S. Treasury Certificates until needed periodically for debt service payments. The final refunded bond was paid in full during 2002.

The District advance refunded the aforementioned bonds to reduce its total debt service payments by approximately \$311,923 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$226,856.

On October 4, 2002, the Grayson County School District issued \$5,190,000 Series A and \$370,000 Series B Refunding Bonds with interest rates ranging from 1.25% to 3.75% to refund the outstanding revenue bonds issued in 1993 and 1995. The net proceeds were deposited into the 2002A and 2002B Escrow Fund account with Cecilian Bank to provide for the appropriate future debt service payments on the aforementioned issues. Such proceeds are invested in certificates until needed periodically for debt service payments. The refunded portion of the 1995 bond issue (with an original amount of \$8,360,000) was paid in full during 2005.

The District advance refunded the aforementioned bonds to reduce its total debt service payments by approximately \$371,070 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$304,922.

Concerning the School District's continuing obligations on refunded bonds, the District was obligated on the 1993 and 1995 issues through September 2006 and January 2007, respectively. These amounts were paid in full during the current year.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS, CONCLUDED

The District has entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amount to be paid by the Commission, at June 30, 2007 for debt service (principal and interest) are as follows:

Year Ended	Grayson Co. School District			KY School Construction Commission			Total			Grand Total		
	Interest	Principal	Total	Interest	Principal	Total	Total	Interest	Principal	Total		
07-08	\$ 561,495.10	\$ 689,492.00	\$ 1,250,987.10	\$ 69,454.92	\$ 320,508.00	\$ 389,962.92	\$ 389,962.92	\$ 630,950.02	\$ 1,010,000.00	\$ 1,640,950.02		
08-09	540,034.63	713,627.00	1,253,661.63	56,449.15	331,373.00	387,822.15	387,822.15	596,483.78	1,045,000.00	1,641,483.78		
09-10	516,374.53	741,456.00	1,257,830.53	42,797.98	343,544.00	386,341.98	386,341.98	559,172.51	1,085,000.00	1,644,172.51		
10-11	491,760.92	764,747.00	1,256,507.92	29,581.58	150,253.00	179,834.58	179,834.58	521,342.50	915,000.00	1,436,342.50		
11-12	464,887.93	783,491.00	1,248,378.93	24,504.56	106,509.00	131,013.56	131,013.56	489,392.49	890,000.00	1,379,392.49		
12-13	437,002.96	810,545.00	1,247,547.96	20,450.78	109,455.00	129,905.78	129,905.78	457,453.74	920,000.00	1,377,453.74		
13-14	407,224.48	839,216.00	1,246,440.48	16,233.03	110,784.00	127,017.03	127,017.03	423,457.51	950,000.00	1,373,457.51		
14-15	374,699.02	876,174.00	1,250,873.02	12,578.48	83,826.00	96,404.48	96,404.48	387,277.50	960,000.00	1,347,277.50		
15-16	324,707.50	895,000.00	1,219,707.50	9,225.00	60,000.00	69,225.00	69,225.00	333,932.50	955,000.00	1,288,932.50		
16-17	281,797.50	940,000.00	1,221,797.50	6,662.50	65,000.00	71,662.50	71,662.50	288,460.00	1,005,000.00	1,293,460.00		
17-18	236,078.75	985,000.00	1,221,078.75	3,997.50	65,000.00	68,997.50	68,997.50	240,076.25	1,050,000.00	1,290,076.25		
18-19	188,222.50	1,030,000.00	1,218,222.50	1,332.50	65,000.00	66,332.50	66,332.50	189,555.00	1,095,000.00	1,284,555.00		
19-20	137,991.25	1,085,000.00	1,222,991.25	0	0	0	0	137,991.25	1,085,000.00	1,222,991.25		
20-21	85,266.25	1,135,000.00	1,220,266.25	0	0	0	0	85,266.25	1,135,000.00	1,220,266.25		
21-22	29,155.00	1,190,000.00	1,219,155.00	0	0	0	0	29,155.00	1,190,000.00	1,219,155.00		
	\$5,076,698.32	\$13,478,748.00	\$18,555,446.32	\$293,267.98	\$1,811,252.00	\$2,104,519.98	\$2,104,519.98	\$5,369,966.30	\$15,290,000.00	\$20,659,966.30		

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE G - RETIREMENT PLANS

The Grayson County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the KY Department of Education (KDE).

The Grayson County School District's total payroll for the year was \$20,244,671. The payroll for employees covered under KTRS was \$15,680,111. For the year ended June 30, 2007, the Commonwealth contributed \$1,853,486 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ended June 30, 2007 were \$201,392 which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under County Employee's Retirement System (CERS), a cost-sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 13.19% of the employee's total compensation subject to contribution.

The total payroll for employees covered under CERS was \$4,398,512. The contribution requirement for CERS for the year ended June 30, 2007 was \$797,718 which consisted of \$577,606 from the District and \$220,112 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons.

KTRS and CERS do not make separate measurements of assets and pension benefits obligations for individual employers.

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practicable to determine the board's portion of the un-funded past service cost or the vested benefits of the board's portion of the plan assets.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE H - DEFERRED COMPENSATION PLAN

The District has deferred compensation plans created in accordance with the Internal Revenue Code Section 457. The plans are administered by independent plan administrators through administrative service agreements. The plans are available to all District employees. Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The deferred compensation plans are accounted for in the Agency Fund. The plans' assets are presented at fair market value and captioned as "investments" with corresponding liabilities captioned "net assets held in trust." All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the claims of the District's general creditors. Participants' rights under the plans are equal to those of general creditors of the District in an amount equal to the fair value of the deferred amount for each participant.

NOTE I - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2007, this amount totaled \$851,823 for those employees with 27 or more years of experience.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

For fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

NOTE J - CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2007

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Associations. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

School Food Service Fund	\$ 117,840
Debt Service Fund	953
Construction Fund	4,376

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE O - TRANSFER OF FUNDS

During the year, accounting personnel for the District have made several transfers among funds, generally to adjust for recording errors or reclassifications of transactions subsequent to the discovery of more information.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONCLUDED
JUNE 30, 2007

NOTE P – BUDGET VIOLATIONS

During the 2007 fiscal year, the District incurred line item expenditures in excess of budget. These expenditures were within the general fund, special revenue fund, construction fund, school food service fund, and daycare fund.

NOTE Q – ON-BEHALF PAYMENTS

During the 2007 fiscal year, the District received on-behalf payments from federal and state sources. These payments are recorded in the district-wide financial statements as both revenues and expenses during the current year. The on-behalf payments received are as follows:

Life insurance amounts	\$ 13,227
Flex vendors/HRA Humana	296,513
Administrative fees	35,555
Humana PPO	2,808,602
KTRS	1,853,486
Less: Federal reimbursement	(219,092)
	<u>\$ 4,788,291</u>

NOTE R – INVESTMENTS

The investments of the District include the sick leave escrow and a certificate of deposit.

SUPPLEMENTARY INFORMATION

GRAYSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	DEBT SERVICE FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 76,410	\$ 743	\$ 488,632	\$ 565,785
Investments	0	0	0	0
Accounts receivable:				
Accounts	0	0	0	0
TOTAL ASSETS	<u>\$ 76,410</u>	<u>\$ 743</u>	<u>\$ 488,632</u>	<u>\$ 565,785</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Cash overdraft	\$ 0	\$ 0	\$ 0	\$ 0
Accounts payable	0	0	0	0
Accrued payroll and related expenses	0	0	0	0
Deferred revenues	0	0	0	0
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE				
Reserved for encumbrances	0	0	0	0
Accrued sick leave	0	0	0	0
Unreserved	0	743	0	743
Restricted for future construction	0	0	488,632	488,632
Debt service fund	76,410	0	0	76,410
TOTAL FUND BALANCE	<u>76,410</u>	<u>743</u>	<u>488,632</u>	<u>565,785</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 76,410</u>	<u>\$ 743</u>	<u>\$ 488,632</u>	<u>\$ 565,785</u>

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	DEBT SERVICE FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Earnings on investments	0	0	27,879	27,879
Other local revenues	0	0	0	0
State sources	0	383,940	0	383,940
Federal sources	0	0	0	0
Other sources	1,714,699	0	0	1,714,699
TOTAL REVENUES	<u>1,714,699</u>	<u>383,940</u>	<u>27,879</u>	<u>2,126,518</u>
EXPENDITURES				
Instructional	0	0	0	0
Student support services	0	0	0	0
Staff support services	0	0	0	0
District administration	0	0	0	0
School administration	0	0	0	0
Business support services	0	0	0	0
Plant operation and maintenance	0	0	0	0
Student transportation	0	0	0	0
Central office	0	0	0	0
Community service operations	0	0	0	0
Facility acquisition, construction and improvement	0	0	32,255	32,255
Other	0	0	0	0
Debt service	1,715,652	383,355	0	2,099,007
TOTAL EXPENDITURES	<u>1,715,652</u>	<u>383,355</u>	<u>32,255</u>	<u>2,131,262</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(953)	585	(4,376)	(4,744)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Bond issue costs	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	(953)	585	(4,376)	(4,744)
FUND BALANCES – BEGINNING	<u>77,363</u>	<u>158</u>	<u>493,008</u>	<u>570,529</u>
FUND BALANCES – ENDING	<u>\$ 76,410</u>	<u>\$ 743</u>	<u>\$ 488,632</u>	<u>\$ 565,785</u>

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$4,536,546	\$4,962,772	\$5,135,341	\$ 172,569
Earnings on investments	265,000	359,624	386,630	27,006
Other local revenues	79,556	151,090	208,455	57,365
State sources	15,328,427	16,032,137	20,088,904	4,056,767
Federal sources	45,000	89,768	89,768	0
Other sources	0	0	0	0
TOTAL REVENUES	<u>20,254,529</u>	<u>21,595,391</u>	<u>25,909,098</u>	<u>4,313,707</u>
EXPENDITURES				
Instructional	13,314,667	13,418,660	16,340,169	(2,921,509)
Student support services	1,047,663	1,054,738	1,195,008	(140,270)
Staff support services	839,321	842,321	898,256	(55,935)
District administration	808,263	808,263	668,713	139,550
School administration	982,906	982,906	1,129,735	(146,829)
Business support services	271,771	271,771	266,187	5,584
Plant operation and maintenance	2,334,889	2,411,531	2,496,698	(85,167)
Student transportation	2,026,524	2,026,524	2,273,334	(246,810)
Central office	0	0	0	0
Community service operations	32,403	36,197	32,949	3,248
Facility acquisition, construction and improvement	316,657	366,657	133,680	232,977
Other	635,162	1,801,088	0	1,801,088
Debt service	0	0	0	0
TOTAL EXPENDITURES	<u>22,610,226</u>	<u>24,020,656</u>	<u>25,434,729</u>	<u>(1,414,073)</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(2,355,697)</u>	<u>(2,425,265)</u>	<u>474,369</u>	<u>2,899,634</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	5,000	16,321	23,395	7,074
Bond issue costs	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	(49,303)	(57,571)	(57,571)	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>(44,303)</u>	<u>(41,250)</u>	<u>(34,176)</u>	<u>7,074</u>
NET CHANGE IN FUND BALANCES	<u>(2,400,000)</u>	<u>(2,466,515)</u>	<u>440,193</u>	<u>2,906,708</u>
FUND BALANCES – BEGINNING	<u>2,400,000</u>	<u>2,466,495</u>	<u>2,666,495</u>	<u>200,000</u>
FUND BALANCES – ENDING	<u>\$ 0</u>	<u>\$ (20)</u>	<u>\$3,106,688</u>	<u>\$ 3,106,708</u>

NOTE: On-behalf payments are not included in original and final budgeted amounts. However, such payments are included in actual revenue and expenditure amounts.

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Earnings on investments	0	0	4,646	4,646
Other local revenues	35,000	35,000	25,183	(9,817)
State sources	1,689,516	1,756,363	2,201,941	445,578
Federal sources	2,711,230	2,812,838	2,873,892	61,054
Other sources	0	0	0	0
TOTAL REVENUES	4,435,746	4,604,201	5,105,662	501,461
EXPENDITURES				
Instructional	3,254,630	3,117,181	3,655,921	(538,740)
Student support services	159,846	176,224	188,686	(12,462)
Staff support services	487,080	768,489	740,876	27,613
District administration	2,950	2,950	1,344	1,606
School administration	137,744	134,253	134,845	(592)
Business support services	0	0	0	0
Plant operation and maintenance	73,160	73,160	79,140	(5,980)
Student transportation	47,320	76,199	45,677	30,522
Central office	0	0	0	0
Community service operations	322,319	313,316	316,744	(3,428)
Facility acquisition, construction and improvement	0	0	0	0
Other	0	0	0	0
Debt service	0	0	0	0
TOTAL EXPENDITURES	4,485,049	4,661,772	5,163,233	(501,461)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(49,303)	(57,571)	(57,571)	0
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Bond issue costs	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	49,303	57,571	57,571	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	49,303	57,571	57,571	0
NET CHANGE IN FUND BALANCES	0	0	0	0
FUND BALANCES – BEGINNING	0	0	0	0
FUND BALANCES – ENDING	\$ 0	\$ 0	\$ 0	\$ 0

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – FSPK BUILDING FUND
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 538,368	\$ 538,368	\$ 538,368	\$ 0
Earnings on investments	0	0	26,455	26,455
Other local revenues	0	0	0	0
State sources	682,000	684,401	684,481	80
Federal sources	0	0	0	0
Other sources	0	0	0	0
TOTAL REVENUES	<u>1,220,368</u>	<u>1,222,769</u>	<u>1,249,304</u>	<u>26,535</u>
EXPENDITURES				
Instructional	0	0	0	0
Student support services	0	0	0	0
Staff support services	0	0	0	0
District administration	0	0	0	0
School administration	0	0	0	0
Business support services	0	0	0	0
Plant operation and maintenance	0	0	0	0
Student transportation	0	0	0	0
Central office	0	0	0	0
Community service operations	0	0	0	0
Facility acquisition, construction and improvement	0	0	0	0
Other	0	0	0	0
Debt service	2,042,606	2,045,007	848,988	1,196,019
TOTAL EXPENDITURES	<u>2,042,606</u>	<u>2,045,007</u>	<u>848,988</u>	<u>1,196,019</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(822,238)	(822,238)	400,316	1,222,554
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Bond issue costs	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	(822,238)	(822,238)	400,316	1,222,554
FUND BALANCES – BEGINNING	<u>822,238</u>	<u>822,238</u>	<u>2,796,036</u>	<u>1,973,798</u>
FUND BALANCES – ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,196,352</u>	<u>\$ 3,196,352</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Education:			
Passed Through State Department of Education			
Special Education Cluster (IDEA):			
Special Education – Grants to States (IDEA)	84.027*	0581-X	\$ 268,756
		0581-X	669,979
Total			<u>938,735</u>
Special Education – Preschool Grants	84.173	0587-X	<u>51,436</u>
Total Special Education Cluster (IDEA)			990,171
Adult Education – State Grant Program	84.002	0535-X	82,333
Safe and Drug Free Schools and Communities (Title IV)	84.186	0590-X	21,743
State Grants for Innovative Programs (Title V)	84.298	0533-X	7,336
Title I Grants to Local Educational Agencies	84.010*	0531-X	1,199,968
Improving Teacher Quality State Grants	84.367*	0710-X	318,055
Norm Reference Testing Grants	84.369	N/A	1,909
Smaller Learning Community	84.215	N/A	50,332
Rural Education	84.358	0350-X	75,135
Vocational Educational – Basic Grants to States	84.048	5462-X	23
		5462-X	2,417
		5462-X	<u>56,058</u>
Total			58,498
Education Technology State Grants	84.318	0736-X	53,550
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	N/A	<u>10,976</u>
Total U.S. Department of Education			2,870,006
Corporation for National and Community Service:			
Passed Through State Department of Education			
Learn and Serve America	94.004	0743-X	3,886
U.S. Department of Agriculture:			
Passed Through State Department of Agriculture			
Food Donation (Non-Cash)	10.550	0575-X	98,515
Passed Through State Department of Education			
Child Nutrition Cluster:			
Summer Food Service Program for Children	10.559*	0574-X	15,031
		0569-X	<u>1,560</u>
			16,591
NSLP – National School Lunch Program	10.555*	0575-X	208,322
		0575-X	648,803
		0575-X	<u>26,808</u>
Total			883,933
School Breakfast Program	10.553*	0576-X	66,961
		0576-X	<u>207,542</u>
			274,503
Total			<u>1,175,027</u>
Total Child Nutrition Cluster			<u>1,273,542</u>
Total U.S. Department of Agriculture			<u>\$ 4,147,434</u>
Total			

(CONTINUED)

**GRAYSON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2007**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at fair value of the commodities received and disbursed. At year end, the District had donated food commodities valued at \$98,515 in inventory.

NOTE C – SUBRECIPIENTS

During the current year no amounts were provided to subrecipients.

NOTE D – MAJOR PROGRAMS

Major programs are denoted by an asterisk (*).

GRAYSON COUNTY SCHOOL DISTRICT
GRAYSON COUNTY HIGH SCHOOL – ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007

ACTIVITY	BEGINNING BALANCE	RECEIPTS	DISBURSEMENTS	TRANSFERS	ENDING BALANCE
FCA	\$ 347	\$ 56	\$ 140	\$ 0	\$ 263
Marion E. Higgs Scholarship	6,825	0	0	0	6,825
Bookstore	44	0	0	0	44
Cats Awards	166	0	166	0	0
Accelerated Reader	23	0	0	0	23
Higgs Scholarship	234	208	300	51	193
Newspaper	395	5,175	5,536	0	34
Yearbook	26,294	21,435	33,580	0	14,149
STLP	12	0	0	0	12
Outdoors Club	17	0	0	0	17
Drama	445	0	0	0	445
BETA Club	203	1,969	1,857	0	315
FFA	6,190	26,952	26,313	(76)	6,753
FCCLA	2,330	4,947	3,984	(30)	3,263
FBLA	375	0	0	0	375
Junior Beta Club	48	0	0	0	48
Athletics	7,616	0	335	0	7,281
Prom	6,670	10,040	10,694	0	6,016
Just Say No	758	0	270	(8)	480
NHS	1,559	1,326	1,094	0	1,791
Student Government	1,840	2,735	4,483	346	438
Science Club	0	0	0	0	0
Football Coach	8	0	0	0	8
Vocational Tuition	2,048	0	0	0	2,048
DECA	1,307	15,010	15,141	426	1,602
HOSA	500	11,714	11,445	(78)	691
Carpentry VICA	727	4,751	3,578	0	1,900
Auto Mechanics VICA	138	2,058	2,190	0	6
Electricity VICA	1	0	0	0	1
Welding VICA	775	0	228	0	547
Senior Class	5,811	18,630	16,133	0	8,308
Parking Passes	4,047	2,191	413	0	5,825
Goodwill	331	0	0	0	331
Pep Club	217	0	0	0	217
French Club	159	0	128	0	31
Arts Club	106	29,708	29,807	0	7
TSA Club	60	0	0	0	60
Girls Basketball Coach	1,051	2,544	2,620	(240)	735
YMCA	0	1,142	1,115	0	27
Motorsports Club	205	0	0	0	205
Fieldtrip	113	1,055	816	0	352
Youth Crime Watch	573	0	0	0	573
Cheerleaders	0	0	0	0	0
Flag Pole Account	0	0	0	0	0
Chorus	3,410	0	0	0	3,410
Administration	27,027	27,216	46,781	(1,295)	6,167
Books Lost or Stolen	3,045	86	0	0	3,131
Cold Checks	0	0	0	0	0
Guidance	0	348	348	0	0
Dances	0	0	0	0	0
Special Ed	415	150	50	0	515
Marie Escue Scholarship	0	0	0	0	0
VO AG	3,496	901	129	0	4,268
Library	2,076	1,273	1,941	0	1,408
AEC	0	0	0	0	0
Teacher's Lounge	3,232	4,001	6,077	0	1,156
Concessions	27,952	14,454	20,166	904	23,144
TOTAL	\$ 151,221	\$ 212,075	\$ 247,858	\$ 0	\$ 115,438

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
ACTIVITY FUNDS BY SCHOOL – ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

ACTIVITY FUND	BEGINNING BALANCE	RECEIPTS	DISBURSEMENTS	TRANSFERS	ENDING BALANCE
Caneyville Elementary School	\$ 43,223	\$ 64,408	\$ 54,379	\$ 0	\$ 53,252
Clarkson Elementary School	23,364	120,903	115,846	0	28,421
Oran P. Lawler Elementary School	13,422	53,419	51,582	0	15,259
H.W. Wilkey Elementary School	41,070	59,088	62,789	0	37,369
Grayson County Middle School	73,143	94,111	119,200	0	48,054
TOTAL	\$ 194,222	\$ 391,929	\$ 403,796	\$ 0	\$ 182,355

See accompanying auditors' report and notes to financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Kentucky State Committee for School District Audits
Members of the Board of Education
Grayson County School District
Leitchfield, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Grayson County School District as of and for the year ended June 30, 2007, which collectively comprise the Grayson County School District's basic financial statements and have issued our report thereon dated November 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Grayson County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Watkins, Buckles, Travis & Sloan
Certified Public Accountants
November 1, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Grayson County School District
Leitchfield, Kentucky

Compliance

We have audited the compliance of the Grayson County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Grayson County School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in the entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Grayson County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Watkins, Buckles, Travis & Sloan
Certified Public Accountants
November 1, 2007

**GRAYSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Grayson County School District.
2. No reportable conditions are reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and identified in this Schedule (Section B).
3. No instances of noncompliance material to the financial statements of Grayson County School District was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Grayson County School District expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Grayson County School District are reported in Part C of this Schedule.
7. The programs tested as major programs include:
 - U.S. Department of Agriculture
Child Nutrition Cluster:
CFDA 10.559, 10.555, 10.553
 - U.S. Department of Education
Title I Grants to Local Educational Agencies
CFDA 84.010
 - U.S. Department of Education
Special Education - Grants to States (IDEA)
CFDA 84.027
 - U.S Department of Education
Improving Teacher Quality State Grants
CFDA 84.367
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Grayson County School District was not determined to be a low-risk auditee.

(CONTINUED)

**GRAYSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2007**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None

**GRAYSON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

**Reference
Number**

Finding

**Questioned
Costs**

None